

## Group Managing Director's Operations Review

The Group continued to perform steadily in the past year. Building on the achievements of previous years and the unbridled energy, passion and commitment from the employees, all three of our core businesses reached new milestones in their operational results and capabilities.

Throughout the year under review, we continued with our business strategies by continuously improving our systems and processes; embarking on new technologies and marketing strategies; and building knowledge and expertise through our people.

### Chemicals Division

We performed admirably despite the downturn in the global economy in the past year and achieved a turnover of RM606.5 million. This marked an 18.7% increase from the turnover of RM511.1 million in the previous year. However, the Division's profit before tax decreased by 3.1% from RM15.1 million in 2007 to RM14.7 million in 2008 due to year-end-stock impairment charges incurred reflecting market falls in product prices, and underperformance of its water systems business.

The second half of the year witnessed a combination of higher energy cost, sharp drop of commodity prices and weakening of the Ringgit against major currencies which posed a mixture of challenging market dynamics for the Division. With the global financial meltdown towards the end of the year, like most industries, we experienced a severe drop in demand for our products. The dumping of excess production capacities by manufacturers across the region was another detrimental factor.

The Chemicals business have been expanding through the years into the ASEAN markets, with offices in Singapore, Indonesia, Vietnam, Thailand, and this continued in 2008 with a Sales & Marketing office being set up in the Philippines, to take part in the industrial growth of these countries. To strengthen our Water Business, we have acquired Enersave Water Sdn Bhd (now known as CCM Water Systems Sdn Bhd), whose core competency is in ultra filtration and membrane technology. Coupled with our traditional strength in water treatment chemicals for the potable water industry, this synergy will augur well for the Chemicals business, as the clean and waste water sectors will become even more important in years to come.

During the period under review, we were working toward completing the acquisition of the Innovative Group of Companies which will allow us to enhance our involvement in the specialty chemicals and more so in the rubber chemicals business. The completion of this acquisition exercise took place in January 2009.

These two acquisitions are of strategic significance as it will strengthen the portfolio mix of the Chemicals Division, reducing any over dependence on any product group.

### Fertilizers Division

As one of the fundamental materials for the development of a nation's economy, fertilizers continued to be traded actively in local and regional markets. Our sales revenue for 2008 increased remarkably by 94.2% to RM1.4 billion compared to the same period in the past year. Accordingly, profit before tax for the year for the Division improved by 138.4% from RM35.0 million in the previous year to RM83.5 million in the year under review.

In tandem with the price increases for energy and raw materials both at home and abroad, prices of fertilizers also increased accordingly in the first three quarters of the year. But the fourth quarter of 2008 was predominated by rapid declines in fertilizer prices from their peaks in the preceding quarters. Notwithstanding the decline in fertilizer prices in the last quarter, we recorded an unprecedented growth in revenue during the year under review.

As the prices took a nose dive from the global economic meltdown and the downturn in crude palm oil prices in the final quarter of the year, the value of stocks had to be impaired accordingly. Nevertheless, demand for fertilizers is expected to remain strong with annual expansion of planted acreages, both domestically as well as regionally.

Our new RM50 million fertilizer plant in Bintulu, Sarawak became operational in 2008 with an annual capacity of 130,000 tonnes, increasing our production capability by 50%. Together with our plant in Shah Alam, Selangor, we now have an annual capacity of 410,000 tonnes. We are confident to meet the demand of the local markets and are also looking more aggressively into the region, especially in Indonesia, to ensure both our sustainability in the local industry and secure our position as one of the leading manufacturers of fertilizers in the ASEAN region.

The Division entered into a strategic alliance with The Arab Potash Company PLC to ensure security of supply of Muriate of Potash (MOP) or potassium chloride. MOP is one of the most important nutrients used in agriculture which is essential for better yield of plants.

### Pharmaceuticals Division

2008 welcomed the appointment of En. Leonard Ariff Abdul Shatar as the Director, Pharmaceuticals Division. He is also the Chief Executive Officer of CCM Duopharma Biotech Berhad. He joined the Group in 1990 and has worked in our Chemicals and Pharmaceuticals Division before leaving for ICI Paints Malaysia in 2003 as its General Manager and subsequently the Managing Director. We are confident that under his leadership, the Group will benefit immensely from his vast experience in the operations of the Division and knowledge in the pharmaceuticals industry.

During the year, the Division saw an increase of almost 7%

### Pharmaceuticals Division (cont.)

in revenue to RM232.7 million compared to RM217.4 million in the previous year. This is still a commendable performance considering that in the middle of 2008, the price of fuel skyrocketed globally which affected all industries including ours. The phenomenal fuel price hike increased the prices of raw materials and packaging materials. We immediately responded to the unprecedented price increase with various cost saving measures and at the same time we also started synergising our two major operating pharmaceuticals companies in our Group.

In 2008, we established a regional office in the Philippines, adding to the regional offices we already have in Singapore, Indonesia, Vietnam and Thailand. Over the years, we have paved the way for our brand presence in the region and regional sales have contributed significantly to the Group's revenue. 2008 also saw the commissioning of the Division's Oral Solid Dosage facility in Bangi.

Our pharmaceuticals business consists of Ethicals (prescription drugs) and Over-The-Counter (OTC). Some of our top performing ethical products include *Omesec*, *Vascor*, *Carinox*, *Beamox* and *Uphalexin*. Our best OTC brands are the award winning children range *CHAMPS*, adult multivitamin *Proviton*, *Flavettes*, *Chewies*, *Donna*, *Sloane's* linament and a few others. While there is more re-pricing flexibility on sales to the private sector, we are stepping up our promotion and marketing efforts as the customers are tightening their belts in the wake of a major economic downturn. At the same time, we have secured sales to the government sector under term supply contracts to generate a steady flow of income into 2009.

### International Business

One of CCM Group's growth drivers is to expand its businesses outside Malaysia. We recognize that the global markets present huge opportunities for our future business growth. CCM commenced its expansion outside Malaysia in 1998, when it opened its first regional operations in Singapore. Today, CCM has operations in all key ASEAN markets, including Indonesia, Vietnam, Thailand and Philippines, as well as exports to over 25 countries outside ASEAN. Over the years, CCM's businesses outside Malaysia has grown exponentially and in 2008, the international business contributed to about 27% of the Group's total revenue.

In line with CCM Group's growth plans, the Group has set up the International Business Division on 1 January 2009. The purpose of setting up this new Division is to manage and grow its current operations in ASEAN as well as to seek and develop businesses in new international markets. In 2009, CCM is expected to commence operations of its inaugural asset outside Malaysia, a 130,000MT per year compound fertilizer plant in Medan, Indonesia. The Group will continuously be

looking out for opportunities in the international markets to invest and grow its businesses in 2009 and beyond.

### Corporate Responsibility

We are committed to ensuring the highest standards of corporate governance are practised throughout the Group. This was further affirmed with CCM being one of the winners for the Corporate Governance Survey 2008 Overall Excellence Award which was awarded by the Minority Shareholder Watchdog and University of Nottingham (Malaysia Campus).

While we direct and manage the Group to achieve profit maximisation and bringing the best value to our stakeholders, our commitment to our customers, community and the nation is embedded in our business and social activities. We believe in enhancing the quality of life for all; from giving the best value to our customers that buy our products and the community we serve to managing the environmental impact of our operations. As always, our Corporate Responsibility (CR) programmes focus on four main areas: Healthcare, Education, Environment and Sports.

In 2008, CCM donated RM260,000 worth of Eye Glo Plus, our eye care solution for the use of some 50,000 personnel of the Royal Malaysian Police. We are proud to offer assistance to the police force so they could comfortably continue to protect and serve the public. For the fourth consecutive year, we also contributed RM700,000 worth of health kits to the pilgrims who were performing the *Haj*.

Throughout the year, we also held events and participated in activities especially for the benefits of the society such as the 9th Minggu Saham Amanah Malaysia (MSAM) in Melaka to educate the public on financial investment and the World Halal Forum 2008 to exchange knowledge, expertise and services with international participants and investors in the Halal pharmaceuticals and health supplements market.

As Malaysia is poised to be the hub of the Halal industry in the world, we have established a Halal Council at the Group level and Halal Committees throughout our subsidiaries to enhance our product exports to the global Islamic community. We also participated in the Malaysian International Halal Showcase (MIHAS) to inform and educate the consumers on the availability and benefits of consuming Halal certified health products.

We also believe in the education and knowledge development of our younger generation. For the second year in a row, CCM's CHAMPS was a major sponsor at the *2008 Knowledge Discovery Spelling Final Competition* to promote spelling skills among school children. Held in Putrajaya, the event was jointly organized by the Ministry of Education and Knowledge Discovery magazine. For the third year in a row, CCM donated RM30,000

### Corporate Responsibility (cont.)

worth of books on science, technology and health to 10 primary schools in Perak to inculcate the reading habit among rural school children. These schools were especially selected to provide them with the same opportunities and options as those in urban areas.

Sports is another area of focus for the CCM Group. During the year, the Group continued to sponsor sports in cricket, lawn bowl and 10-pin bowling events at national level.

### Human Resource Development

As we believe deeply in the training and development of our human resources, we will continually allocate significant management and financial resources in order to achieve a highly skilled and competent workforce. As an integral part of our organisational development, it is no longer a luxury, but a necessity in an ever increasingly competitive business environment. Human capital is our principal asset and should grow in tandem with the company.

To retain our best talents, various initiatives and training programmes involving more than 32,000 training hours were conducted throughout the year. A Leadership Development Training for Junior, Middle and Senior Management and a Functional Capability Training from the corporate office and divisions of our core businesses were successfully conducted. We want to better equip our management and workforce with core values and introduce best practices which are highly respected by the business and social communities. Through the implementation of a Strategic Human Resource Roadmap 2008-2010, we will enhance our human resources further.

Looking ahead, we always develop a succession planning programme to ensure we retain our pool of management personnel by streamlining the various human resource areas such as benefits and compensation system, and identifying our best talents into a divisional structure. We offered more than RM220,000 worth of scholarships to the most outstanding and deserving students at undergraduate levels in local universities. During the tough employment market in 2008, we have also identified and retained individuals who performed the best under our schemes for unemployed graduates.

### GLC Transformation Programme

We have continued with the various initiatives under the Government Linked Company Transformation (GLCT) Programme first set out in 2005. Designed with the objectives to enhance financial performances of all Government-Linked Companies (GLCs) and to accelerate the nation's social and economic development towards Vision 2020, the programme will create better value and directly benefit shareholders, employees and customers. The GLCT Programme consists of four phases

and will be carried out until 2015. By the end of the year under review, we have successfully implemented the third phase of the programme.

As one of the major initiatives, all divisions and subsidiaries have been informed of the Group's Procurement Policy and the importance of Return on Equity for the company. An online vendor database and a Vendor Development Programme were officially launched in 2008. As a result, we have achieved savings through operational cost reductions, better cashflow management and our drive to increase local and regional sales. We will continue to inculcate a culture of excellence and high performance to drive the Group's operational performance in the years to come.

### Research and Development

Continuous efforts will be undertaken to promote research and development (R&D) in activities related to our core businesses. To address the national issue of food security, the Fertilizers Division's latest product is to help paddy farmers achieve higher rice yield than the national average. Through collaboration with the Malaysia Agricultural Research and Development Institute (MARDI) and funding by the Ministry of Science, Technology and Innovation, a pilot plant to develop nitro-humic acid liquid fertilizers has been set up.

The Division is also focused on R&D efforts to improve the efficiency and quality of fertilizers for the oil palm sector. To boost the palm oil output, there is a growing shift in demand by oil palm growers for compound fertilizers, away from the traditional straights and mixtures fertilizers. We are also working closely with the Malaysia Palm Oil Board (MPOB) in providing quality and affordable fertilizers for the smallholders.

The year 2008 also saw Innovax Sdn Bhd, CCM Pharmaceutical's research and development arm move to a new dedicated building located in HICOM Glenmarie Industrial Park. This was culminated by an official opening of the Group's RM10 million hi-tech research and development centre held in March 2009 to mark its launch as a place to facilitate the development and creation of new and innovative pharmaceutical products.

We had signed a strategic partnership with MPOB to jointly promote R&D and commercialization of oil palm phenolics-based products in the cosmetic, healthcare and wellness industries. During the year, we have developed various ethical, OTC and herbal pharmaceuticals products, of which a total of 15 products have been approved for marketing by National Pharmaceutical Controlled Bureau of the Ministry of Health.

### Safety, Health and Environment

Our efforts towards achieving standards of excellence in Safety, Health & Environment (SHE) is reflected in the numerous initiatives and continuous programmes undertaken at all our

### Safety, Health and Environment (cont.)

business operations in the Chemicals, Fertilizers and Pharmaceuticals Divisions. On-going initiatives and continuous improvement programmes in the areas of energy management, business process re-engineering, conservation programmes and the implementation of 3Rs (Reduce, Recycle, Reuse), ensure sustainability targets are achieved.

Environmental Impact Assessments (EIA) and Risk Analyses are also carried out for all of our new projects initiatives. The ultimate goal is sustainability and the progressive reduction of carbon and environmental footprints along the value chain that CCM operates in.

We have also instituted diligent controls and extensive internal audit programmes for the management of chemicals, particularly in those facilities that fall under the category of Major Hazard Installations under CIMAH (Control of Industrial Major Accident Hazards) regulations. We abide by the strictest SHE standards consistent with best practice and the requirements of the various legislative statutes.

Our commitment towards SHE is affirmed through our active involvement in the Responsible Care Programme (RCP) promoted by the Chemical Industries Council of Malaysia (CICM). We are the pioneer signatory of the RCP since its inception in 1994, playing a significant leadership role in the key area of corporate responsibility.

CCM Chemicals Division won six (6) Gold and two (2) Platinum awards for the various Codes of Management Practices under the CICM RCP Awards programme for 2007. The Company was also a recipient of the MSOSH (Malaysian Society for Occupational Safety & Health) Gold Award for 2007, for very good performance in the area of occupational safety and health management.

The Group also won the inaugural ICR StarBiz CSR Award in the Environmental category for companies with market capitalization of RM1 billion and above. Winning these prestigious awards is a demonstration of our commitment on the importance of safety, health and environmental practices in business operations and the acknowledgement of the need to excel and be competitive in the face of global challenges.

SHE is a core value and an integral part of the strategic objectives that drives the Group forward. We will continue to play a leadership role in the road towards sustainability and business excellence.

Dato' Dr. Mohamad Hashim bin Ahmad Tajudin  
**Group Managing Director**